



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony

Insurance and Real Estate Committee

March 11, 2014

Raised Bill No. 278 AN ACT CONCERNING RESTRICTIONS ON INSURERS FOR ADVERSE WEATHER-RELATED EVENTS.

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the Insurance Department appreciates the opportunity to provide written testimony regarding S.B. 278. Last year, the Department provided testimony in support of Public Act 13-138 to protect homeowners insurance consumers from being cancelled, declined or non renewed solely due to submission of a catastrophe loss(es) and increasing premiums for de minimus claims. This new legislation significantly changes that legislation and now prohibits an insurer from cancelling, declining, or non renewing or increasing the premium for a loss or losses incurred as a result of any "adverse weather event" even if such action is actuarially justified. As it stands this bill has the potential to significantly impact affordability and availability of homeowners insurance in the state and may ultimately lead to consumers having fewer choices when it comes to finding homeowner insurance. The Department opposes this change and respectfully encourages the Committee to not give S.B. 278 a joint favorable report.

The Department supported not permitting the cancellation, declination or nonrenewal solely due to the submission of a catastrophe claim in our testimony of H.B. 6380 during the 2013 legislative session. Since 2010 the state experienced several catastrophes beginning with the record winter of 2010-2011, Storm Irene, the October nor'easter, Superstorm Sandy and most recently the early February blizzard. To date the Department has allowed current and future company rate filings to contemplate catastrophe weather events and therefore the Department believed that companies did not need to take underwriting action for these same events. We supported H.B. 6380 because the provisions of that bill made certain that insurance policy availability and policy continuity was protected for Connecticut insured's who suffered one or multiple a catastrophic loss(es) within industry standard underwriting experience period.

HB 278 far exceeds the original intent of PA 13-138 and we believe it may inadvertently harm ALL homeowners in the state. Claim frequency for weather related events will cease as a viable rating variable in Connecticut even though the Department and industry have relied on it as an accurate, ratable predictor of future losses. Individuals that adequately maintain their property and do not use their homeowner's policy as a "maintenance" policy will begin subsidizing those that submit any claim to the insurer as there will be no individual consequence for filing numerous claims. Furthermore, the industry will be unable to take underwriting action based on claim frequency for weather related losses. The Department is concerned that there may be a measureable financial impact to companies when left with no alternatives to address weather related loss events on a policy specific basis. Furthermore, the bill

does not define "adverse weather event" so it would appear any loss which could be ever so slightly attributed to weather may be deemed an adverse weather event.

The bill also prohibits the increasing of premium for weather related events but later in the bill there is contradictory language that states a company can make coverage available in an affiliate insurer. This exception is problematic when considering increases in premium for loss experience because carriers use affiliate companies to move policies on renewal to address changes in underwriting characteristics. Movement to an affiliate to address poor loss history will most likely have an adverse impact on premium. Insurance is all about pricing for the exposure and part of that pricing includes the loss history. Statistics have shown the average homeowner may submit 1 loss every 11 years, therefore a homeowner with multiple losses within a 3-5 year period has an above average loss experience and carriers should be able to price the risk to reflect this experience.

The Department encourages the committee to not proceed with the revisions found in H.B. 278. However, we do request a clarification to one section of P.A. 13-138. As we testified last year, we believed the intent of P.A. 13-138, §2.a. was to prohibit a company from cancelling, declining or non-renewing a policy for one or more catastrophe losses. However, as currently drafted, carriers have interpreted the law to mean that they have the ability to cancel, decline or non-renew a policy for two or more catastrophe losses because the law currently uses the phrase "on a loss incurred as a result of a catastrophic event". We would like the Committee to make one modification to the 38a-316(d) of the Connecticut General Statutes as follows: The declination, cancellation or nonrenewal..... on any loss incurred as a result of one or more catastrophic events. The Department respectfully requests that all other provisions of PA 13-138 currently in statute remain unchanged. The committee may also wish to include in this section additional wording that allows for an increase in premium only after the second catastrophe loss.

Thank you for your consideration, we look forward to working with you on this legislation.

About the Connecticut Insurance Department: The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than \$4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. Each year, the Department returns an average of \$100 million a year to the state General Fund in license fees, premium taxes, fines and other revenue sources to support various state programs, including childhood immunization.